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Money.

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MONEY.

Long, George

M O N E Y .

Demand and supply being common to all commodities, in exchange by barter, there are four variable relations to be adjusted, and, as these adjustments can be made only by compromise, each party endeavors to bar or defend himself against the other by assertions, sometimes loud, frequently false, and generally reiterated. To avoid, in some degree, a practice so detrimental to morals, and so destructive to commerce, money was invented. In other words, gold of uniform quality was divided into pieces adapted to commerce, and issued under Government seal.

As money of gold is an object of highly concentrated demand, and as it does not denote the supply of the commodity of which it consists, it is assumed to be an object of demand only; and correlatively the commodity offered in exchange is assumed to be an object of supply only. Thus the variable relations of exchange are apparently reduced to two. Yet as money is known only by name, and as that is invariable, it is assumed that the demand which it represents is invariable. Thus these relations are apparently reduced to one—the supply of the commodity. Nevertheless, as money of gold consists of a commodity, and as the relations of demand and supply are common to all commodities, and as these are necessarily variable, such money evidently does not represent invariable demand, but, in regard to those relations, varies with every variation of its material.

Money valued for its material, as that of gold, is well suited to the want of confidence that characterizes a semibarbarous state of society; but when knowledge and civilization take the place of ignorance and barbarity, mutual respect and confidence take the place of rudeness and distrust, and, correspondingly,

money of credit takes the place of money of gold. Yet money of credit is accepted chiefly because of its convenience, with the understanding that its redemption is properly secured, and its issue properly regulated. Accordingly, to fulfil just expectations in these respects is the earnest endeavor of every Government that authorizes the use of such money. For the accomplishment of these objects, however, the only rule that has the appearance of availability is, to restrict the issue so that the credit dollar will be valued equally with the gold dollar. To make the absurdity of this rule evident, it is sufficient to point to the difference between promise and payment. Of course, every method heretofore tried to make the rule effectual, has failed. That the credit dollar is ever at par is simply because payment is not demanded, and it is not demanded partly because money of credit is more convenient than that of gold, and partly because it serves to increase the rate of the dollar per capita, and thus the nominal value of wealth. The irregularities of the issues of money of credit, notwithstanding the rule, are well exhibited in the report of the Honorable Secretary of the Treasury, by which it appears that on or about the first of January of each of the several years from 1834 to 1863 inclusive, Bank issues were, per capita of population, \$6.59, 6.99, 9.21, 9.52, 7.20, 8.15, 6.26, 6.09, 4.26, 3.13, 3.90, 4.51, 5.16, 5.00, 5.90, 5.05, 5.66, 5.48, ———, 5.19, 7.97, 6.91, 7.02, 4.49, 5.26, 6.36, 5.58, 6.21, 5.49 and 6.98.

With this rule, banks are tempted to increase their issues and extend their loans until both they and their customers have more credit than they can redeem in proper time. It is then that the foreign trade, finding the surplus produce not sufficient, take for export a product that is appropriated to an important home use—take money of gold—that upon which money of credit is immediately based, and the money of the country being thus debased, the result is suspension and general failure.

Evidently the increase of money of credit is not to meet increased demand, but to increase trade independently of demand; and its decrease is not to meet decreased demand, but because trade, having been increased beyond the demand, under the stimulus of credit, must be returned to its proper support or perish. The rate of the currency is not an element of political economy.

Those elements are population, demand, industry, supply, consumption, and savings or wealth, which, being mutually dependent, are not properly subject to great or sudden variations of relations. Such variations are generally due to misconceptions of moral relations, under some delusive hope. The most extraordinary instance of this was exhibited in the late war, during which the supply was diminished by the withdrawal of a large industrial force; and, as the deficiency thus produced could be supplied only from former savings, the consequence is a large debt to those from whom the savings were obtained. To recover from this it will be necessary to produce more per capita than heretofore, or to consume less, or both. As this is the only way in which the means of payment can be obtained, and as therefore much more time will be required for the payment of the debt than was occupied in its creation, it becomes the Government to encourage the industry of the country to the utmost, by freeing it from restrictions.

The only true encouragement for industry is freedom. Stimulus is not encouragement. When the currency was increased from six or seven dollars per capita to twenty or more a great increase of the nominal value of wealth took place, and if it be reduced to its former rate a proportionate decrease of the same will follow; but these changes are not for the interest of industry, but in defiance of it. For, as the rate of the dollar governs its value, and to that extent the value of wealth, increase of rate increases prices, and thus stimulates industry above the demand, and decrease by inverse influence depresses it below the demand; so that in either case the result is not encouragement but derangement.

Money represents demand, and thus the population, in which demand resides. It is therefore an element of political economy; but the rate of the dollar is not, because if each unit of demand (and thus of population) be represented by \$6, that rate represents all there is of demand, and if each be represented by \$16, this rate can do no more. If, therefore, an attempt be made to increase industry, not by increase of population, and thus of demand, the cause of industry—not by industrial freedom, its encouragement, but simply by increase of the rate of the dollar—the attempt

will be a failure. It is obviously absurd to suppose industry can be increased by decrease of rate. Increase, while in progress, acts as a stimulus, and thus appears to be successful for a time ; but the mere prospect of decrease reduces industry proportionately, and at once. Moreover, with whatever change of rate, there comes a corresponding change of prices, so that expenses bear the same relation to income as before. Yet, as the value of the dollar is inversely as its rate, so is the value of debts, because debts consist of dollars. Accordingly, to increase rate is to diminish indebtedness, and to diminish rate is to increase indebtedness ; so that change of rate, whether by increase or decrease, is equivalent to repudiation.

With money of gold and of credit, changes of rate, being familiar, acquire a natural and proper appearance, and are therefore generally accepted as proper ; and, from the facility with which changes of the rate of credit money may be made, this species of currency is advocated because of its elasticity, a quality greatly admired by financiers(?). Nevertheless there is evidence of a tendency towards a single rate, which, for want of a better term, is called the gold rate—as though gold or money of gold is or has a rate—as though money of credit has a rate at which alone it is equivalent to gold—an attempt at a definition, which, however unsuccessful, is evidence of the tendency. Thus it seems to be felt, if not understood, that the rate of the dollar does not affect the rate of the supply of commodities—that when commodities are abundant they will be proportionately cheap, however high prices may be, and when they are scarce they will be proportionately dear, however low prices may be. It seems to be felt that *it is not rate but change of rate that deranges business relations, and thus injures industry* ; and this consciousness, however ill-defined, by its tendency towards constancy of rate, will ultimately lead to the truth in regard to money. *The truth is, that value exists only in persons—that therefore the unit of population is the unit of value—that this unit may be represented, and that its representative is the money unit.*

The truth of money is based in nature, consequently it exerts more or less influence, whether distinctly recognized or not. To its influence may be attributed the question, What is the proper

quantity of money? a question that has not hitherto been intelligently answered, and which cannot be so answered until the truth of money has been admitted. To its influence, also, may be attributed that clause of the Constitution which, like a bow drawn at a venture, requires the value of money to be regulated and fixed, though there is no money in existence to which the rule is applicable; though there is none to which regularity of rate or constancy of value is possible.

Money represents value; but value is not a thing, nor does it reside in things. Value is demand, desire, esteem, want, wish—it is a power existing in persons—the motive-power of the population—a power that may be represented immediately, if necessary. Then, the representative of the unit of population, and thus of value will be the true money unit. But it may also be represented through the medium of the dollar, at a fixed rate per capita. When this is done, by proper authority, true money will exist. Then, the dollar will represent constant value, and will thus become the true medium of exchange—domestic exchange. The difference between exchange and redemption is, in exchange gold is supplied at the market price, and in redemption it is supplied at a given price. When, however, the given price equals the market price, there is little redemption, because there is little demand; and when it does not, there is little redemption, because there is little ability. Indeed, redemption is not generally desired. Money is chiefly appropriate to the retail trade—the great trade of every country—all being parties to it. The wholesale trade, which, though it has an imposing appearance, is much inferior to the retail in regard to the number of the parties to it, makes little use of money. Yet it is only the wholesale trade, and that only in its foreign department, that asks for redemption—that asks to be allowed to undermine the credit of the country, by withdrawing the base on which the credit of the currency immediately rests, that it may export it. Truly gold is a product of the country, and imports should be paid with surplus produce; but while the credit of the currency, and thus credit generally, is based on gold, that metal cannot be a surplus product, be the aggregate supply what it may. What the people desire of money is not redemption, but constancy of

value. Government has declared that the dollar shall be the legal means of payment. It has thus declared the name by which debts and credits shall be known. This is a declaration of great value, inasmuch as it defines accounts and thus makes them possible. It has also declared that the dollar shall consist of a given weight of gold. This also is a declaration of great value, inasmuch as it determines the commodity by means of which exchanges shall be made. Thus the highest style of barter is attained. But this is a low style of commerce, as may be seen thus: Omitting its gold element, the dollar has legal value that is not given; and omitting its legal element, it has gold value that is not given. In short, the value of the dollar is not and cannot be given. Moreover, in the presence of credit money gold is not current; and, being thus deprived of its current function, it is practically a commodity, with two conflicting uses, one to meet foreign demand in exchange for imports, the other to meet domestic demand as security for money of credit. It is greatly valued for each of these; because greatly valued for other uses; but for use as a means of domestic exchange it is almost without value. On the contrary, true money is the means of domestic exchange, and of that only. Being of no use for any other purpose, and without foreign demand, it has only one function, and that the only one proper to money—the representation of given value.

In view of the universal and exclusive use of money consisting of gold or of credit, it may well be supposed that no other is possible. Happily, however, true money is not only possible but probable. Much time elapsed before money was invented, and much intervened between money of gold and money of credit, and much must intervene between the latter and true money; but a large part of this is past, and from the rapid diminution of those intervals, due to the rapid increase and diffusion of knowledge, it may be assumed that the time for true money is at hand—the time when it will be seen that true money is as essential to the health of business as a pure atmosphere is to the health of the population.

True money will be a present economy so far as it takes the place of the national debt, and it will be a future revenue to the

extent of the increase of population. The rate of increase has been more than three and a half per cent. per annum, but taking it at three per cent. there are persons living who will be living when the population will be two hundred and fifty millions, and the currency proportionate. To the individual the currency will then be of no more importance than now, but the aggregate interest involved will be vastly greater. Thus the importance of understanding the nature of money, in view of the possibilities of the country, is very great.

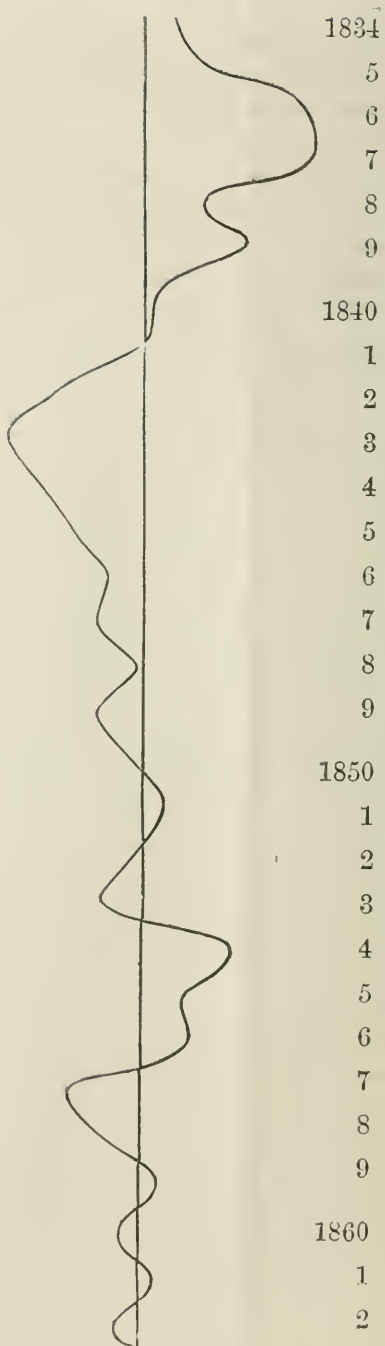
Prospective Population, Currency and Revenue from Currency.

	Population.		Currency.		Annual Revenue from Currency during each decade.
1860	31 millions.				
1870	40 "	\$ 640 millions.			
1880	52 "	830	"	\$20 millions.	
1890	67 "	1070	"	24	"
1900	87 "	1392	"	32	"
1910	113 "	1808	"	42	"
1920	147 "	2352	"	54	"
1930	191 "	3056	"	70	"
1940	248 "	3968	"	91	"

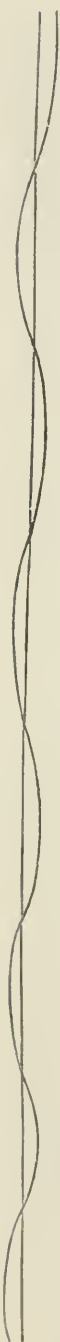
With true money imports will be met and balanced by exports with a regularity heretofore unknown; because, though waves of credit will continue to succeed each other—pulsation being inseparable from action—yet, commercial credit without the stimulus of money of credit, will never pulsate so that the general relations of industry will be seriously disturbed.

Commercial credit is anticipated demand, which, being necessarily in excess of existing demand, stimulates business to a corresponding excess; then, credit having exhausted itself, business descends as far below the average of demand as it had risen above it. Commercial credit is represented by money of credit; consequently, the use of such money, in credit business, is equivalent to multiplying credit into itself. Under the influence of money of credit, therefore, business rises to a multiplied height, and sinks to a corresponding depth.

Waves of credit under the stimulus of money of credit, as indicated by Bank issues.



Probable waves of commercial credit without the stimulus of money of credit.



With regard to the creation of true money, what the general Government declares to be the dollar is the dollar. There is no other way in which it can be created. It is therefore a legal document. The government made several declarations of the dollar, some inscribed on gold, some on silver; all equally dollars. They differed only in the quantity of the gold or of the silver on which they were inscribed; and this difference, in accordance with government usage, was always a diminution. As each declaration was made to supercede all previous ones, the latest declared dollar is meant when any promise of a dollar is made. With regard to the credit dollars now in use, though the people through their government have guaranteed their payment in gold, yet, as they are held by the people who authorized their issue, it rests with them to say whether they prefer to continue their use, to redeem them, or to replace them with true dollars.

The true dollar will be inscribed on paper, but on what else is a death warrant or a pardon inscribed? Are these of no value because they are not inscribed on gold? If the true dollar be of no value because it is inscribed on paper, then the government we value most is of no value for the same reason.

Heretofore through ignorance of the nature of money, and otherwise, repudiation in some aspect has been the rule almost from the beginning of the creation of money to the present day. Now, however, when the nature of money is known, and here, where the people have the supreme power, this nuisance should be abated by making the creation and maintenance of true money a rule of the organic law.

Money having been reduced to a science by the determination of its relations, the reduction of that science to practice will not only encourage industry by introducing into domestic exchange the element of constant value, but, by thus removing the chief support of spurious finance, it will be the means of achieving a great moral reform.

As the true dollar when declared will supersede the present dollar, and all existing substitutes, and as its relation to the unit of value will be strictly defined and constantly maintained, it will be the standard measure of the relations of value. And

as it represents domestic demand and has no particular lien, it will be taken to meet and balance domestic supply wherever that exhibits a surplus that will pay transportation and commission. Yet, as the money unit of the United States will not be that of any other country, foreign exchange will continue to be governed by the American price of foreign money.

It is said, that as other countries base value on gold, we must do the same, otherwise how is foreign exchange to be balanced. Foreign exchange is to be balanced after true money is established, just as it always has been, and always will be, with whatever currency; that is, by calculations, requiring familiarity with the primary rules of arithmetic, and with the weights, measure and monies of the nations in question. If we postpone wise action until every body else is wise, what will be the result? International arrangements are pretty play things. But the true rule of action is wisdom. Be sure you are right, then go ahead, let others follow. Others will follow, but followers are always behind.

It is also said that by returning to the gold rate, whatever that is, commodities will be as cheap as formerly. This theory is based on the practice of accepting "cheap" and "low priced" as synonymous. Cheapness is due to increase of the supply of commodities; low prices are due to decrease of the rate of the dollar. Thus commodities may be at once high priced and cheap, or low priced and dear.

Formerly the average rate of the dollar, for a number of years, was six per capita. To adopt this rate will be to reduce the nominal value of wealth in the ratio of sixteen to six; and at the same time to increase the value of debts public and private in the ratio of six to sixteen. These are results not of speculation but of calculation, and are therefore as certain as that two and two are four, though they are not always apparent. They are not apparent at present, chiefly because our bonds being good for six per cent. interest in gold, there is a large demand for them in Europe, consequently they serve as a substitute for gold in payment of imports, and will do so until the foreign demand for gold equals that for bonds.

When Government takes the responsibility of supplying a true

currency, banking may be made free, under a few simple rules. Then bankers may be allowed to govern their charge of interest for loans, by the demand for money. If this much justice were granted them, investments in banks would be increased, and both lenders and borrowers would be benefitted.

Essential principles of money.

Value or demand is the motive power of persons.

The motive power of the population is the sum of value.

The motive power of the unit of population is the unit of value.

The unit of value may, by proper authority, be represented.

The representative of the unit of value is the money unit.

The money unit may be called the dollar.

The dollar may represent the unit of value in whole or in part.

The value of the dollar is given when the rate of its representation is given.

The dollar is true when its rate is fixed.

Circumstances may increase demand.

Increase of demand increases industry.

Increase of industry requires increase of the means of exchange.

The means of exchange are the representatives of demand.

The representatives of demand are true dollars.

The demand or value which the true dollar represents is as the state of industry.

A currency consisting of true dollars is therefore equal to any possible demand.

Debts consist of dollars.

Debts may lay over through several states of industry.

The value of the true dollar corresponds to the state of industry.

If a given industry be equal to a true dollar in one state of industry it is so in any other.

With true dollars therefore, debts that lay over will be as easily paid in one state of industry, as in another.

One of the duties of the government is to encourage industry, and one of the means is the creation of true money—money that is not subject to change of rate, and that is therefore constant in value—money that represents the people, and is therefore as good as they—money that is a perpetual lien on the wealth of the country, and is therefore as safe as that—money that is independent of material security, and is therefore cheaper than any other—money that, being true in kind, constant in value, good as the people, safe as their wealth, cheaper than any other, of undivided function, of unrestricted circulation, and of undoubted authority, has all the qualities that money should have, and not any it should not have.

GEO. S. LANG.

Philadelphia, February, 1868.



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